

Chairman's Statement
“Reporting Improper Payments: A Report Card on Agencies' Progress”

March 9, 2006

Well, here we are again. This is our third hearing on Improper Payments in just over 8 months. A lot of people find this subject dry or overly technical. Some people think payment errors are simply too arcane to interest the taxpayers.

But this subcommittee is going to keep having hearings on the subject, because I think if the American people heard some of these numbers, they would vote us all out of office, and they'd be right to do so. Let me give you an example of what I mean. The Federal government pays out a lot of money to individuals, organizations, businesses, states and local governments. Between this year and last year, \$83 billion of those payments were wrong. Most of those errors were overpayments rather than underpayments. That means we just threw away the better part of \$83 billion.

That translates into almost \$300 for every man, woman and child in America. We could buy every American an iPod! Remember that \$300 tax refund check the President's tax cuts sent out a couple years ago? If we eliminated improper payments, we'd be able to do it all over again without the hassle of a nasty floor debate. More seriously, we could use that \$83 billion to pay for this year's war effort in Iraq, or fund this year's Katrina reconstruction efforts four times over.

But the \$83 billion is an underestimation. That's only what we know about, based on agency reporting. At our first hearing, we heard that \$45 billion in improper payments represented only 23 of the 35 Federal agencies required to report improper payment information –and those reports only showed that agencies had performed a risk assessment of programs and activities—the first step in complying with the law. Eight months later, that number has not changed, and the \$37 billion in improper payments for last year represents again, only 23 agencies. Now, I know that it is not easy to bring these agencies into compliance and I know that Linda Combs and the CFO council are working hard on this. But I think they would agree with me that it's still not good enough. The law does not exempt any agency from reporting.

The Department of Health and Human Services, the Department of Agriculture and the Department of Housing and Urban Development have a combined total of seven programs that are not yet reporting for programs whose total outlays equal about \$228 billion. There are two major programs and activities at the Department of Agriculture that have failed to report: School Programs, and Women, Infants, and Children (WIC). At HHS, four major programs are not reporting improper payments information: Medicaid, Temporary Assistance for Needy Families (TANF), Child Care and Development Fund, and the State Children's Insurance Program. At HUD, the Community Development Block Grant program has also failed to report. I will be inviting representatives from both USDA and HUD back to testify before this Subcommittee on their failure to comply with the law. Major programs from these three agencies with combined

budgets of over \$200 billion are not yet reporting their payment errors, so we cannot even estimate how much they are wasting each year.

Some of the lowest payment error rates we've seen are around 3%. Let's pretend that these non-reporting programs have error rates at that so-called low rate – we'd still be looking at almost \$7 billion in wrong payments from these non-reporters. And I suspect that it's actually much higher, because, appallingly, very few programs who do report are reporting a rate as low as 3%.

One of the worst examples is the Medicaid program, our healthcare safety net for the poor. Outlays for this program were almost \$200 billion last year. In 2004, the program told us they'd be reporting their payment errors by this year. But last summer, we heard that they wouldn't really be able to do it until 2008. That wasn't acceptable news, and I hope I'll hear some better news today.

Not all programs are out of compliance with the law. Some are reporting, and the reports are deplorable. The worst example by far is the Earned Income Tax Credit program, with a payment error rate of 28%. That means that at least a quarter of payments paid out by this program are wrong. Social Security Administration programs also have unacceptable rates, which have actually been increasing.

Not all the news is bad. The Food Stamps rate is going down, though it is still stunningly high. Department of Labor's Unemployment Insurance program and other agencies have implemented some good policies to help bring the payment error rate down.

This subcommittee will not rest until every program of every agency is in compliance with the Improper Payments law. But the law only requires reporting. The law doesn't tell us what to do when the reporting reveals bad news. Transparency is the first and foundational principle of accountability, but it's only the beginning, not the end. You still need performance. Programs can be in compliance with the law but still have astronomical payment error rates.

I think I know why. Can you imagine the Accounts Payable department at Microsoft or Wal-Mart reporting an error rate of 28%, or even 3%? In the private sector, there are consequences for poor performance. In the Federal government, the natural consequence of either failing to report payment errors or reporting an unacceptable error rate should be that you lose your funding. Why should taxpayers support a program that wastes a third, a tenth, or even 3% of their investment? Taxpayers should not have to tolerate programs that have outrageous waste just because those programs are founded on good intentions; or because the financial officers in those agencies are working long hours and trying hard to fix the problem. There should come a time when it's no longer acceptable to fund a program that's wasting a significant fraction of its budget.

Unfortunately, accountability in the Federal government, unlike in the private sector, requires political will on the part of elected officials. I say "unfortunately" because our system of checks and balances intended by the Framers is broken. Only Congress has the power to pull the plug on programs that are fleecing the taxpayers. Instead of providing a "check" on wasteful

Washington spending, Congress prefers writing a “blank check” to the Executive branch, no matter the waste, fraud or abuse of that money.

When we have offered amendments to cut the funding of programs with unacceptably high payment error rates, those amendments have failed. Congress should be in the business of protecting the taxpayer from being forced to subsidize broken systems. Homeland Security’s contract to get its financial reporting systems in order was such a failure, they recently just cut their losses on that contract and have proposed to start over next year. Department of Defense has over four thousand financial reporting systems that don’t talk to each other. Like the Board of Directors of a corporation is supposed to look out for all its shareholders, the American people rely on Congress to look out for their investment by scrutinizing the government’s performance on these and other problems. Americans need Congress to take that responsibility seriously.

In the meantime, we will not give up. This subcommittee will keep harping on these themes. We will keep trying to make the case to our colleagues until these amendments start passing or the agencies find a way to get the results the taxpayers deserve.

I want to thank our witnesses for coming today. Each one of them faces a monumental task. Cleaning up financial systems in the Federal government is not for the faint of heart. I applaud their efforts and I hope that this hearing will help those efforts back at the agencies.